



Report for: ACTION/INFORMATION
Item Number: 11

Contains Confidential or Exempt Information	NO
Title	Garages – Asset Commercialisation Strategy
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Author(s)	Ceri Dovey – Estates Services Manager Paul Miller – Commercial & Procurement Manager
Portfolio(s)	Housing – Cllr Jasbir Anand
For Consideration By	Cabinet
Date to be Considered	10 th April 2018
Implementation Date if Not Called In	23 rd April 2018
Affected Wards	All
Keywords/Index	Garages, Garage Estate

Purpose of Report:

This report seeks cabinet approval for the appointment of Secure Parking and Storage (SPS) to proactively manage and market the Councils residual garage estate.

1. Recommendations

It is recommended that Cabinet:

- 1.1 Notes that a capital budget of £0.180m for 2018/19 and £0.180m for 2019/20 has been established to fund the building and refurbishment of garages on the HRA estate in the HRA Capital Budget for presented to Cabinet in January 2018. This budget is funded from Revenue Contribution to Capital Outlay (RCCO) sourced from High Intervention Estates in 18/19 and 19/20.
- 1.2 Authorises the appointment of Secure Parking and Storage Limited (SPS) on an initial 2-year contract under a direct award from the NSAH (Alliance Homes) Limited Framework. to provide a management, repairs and refurbishment service for the HRA garages stock. The management and repairs service fee payable to SPS, under this proposed contract will be £0.123m in Year 1 and £0.102m in Year 2. The refurbishment service will be funded by the capital budget of £0.180m in 2018/19 and £0.180m in 2019/20. The revenue funding for the contract is to come from the increased Garage fees income that SPS is to be contracted to achieve. For budget monitoring purposes, it will be identified as Garage Asset Commercialisation.

- 1.3 Authorises the Director of Safer Communities and Housing to agree to the one year contract extensions only if the new income targets for the preceding year are achieved in full. If the targets are not achieved, the Council will exercise it's break-clause, if that step is deemed appropriate. There shall be a maximum of 2 extensions allowed.
- 1.4 Notes that the revenue and capital sums identified in this report are to be contained within the overall HRA Account approved by Cabinet in January 2018. The capital sums identified are as approved in the FE1 – HRA 8 Garage Commercialisation Paper - see Appendix 3.
- 1.5 Notes that the works to the garage assets has been included in the HRA Capital Programme as a new scheme, with the funding of £0.360m capital identified across 2018/19 and 2019/20 contained within the overall capital programme approved by Cabinet in January 2018. This will not cause an impact on the HRA capital programme and revenue position as the expenditure is to be contained within the approved HRA resources.
- 1.6 Notes that it is intended to clear and build 175 new garages and refurbish 100 over the first two years – 2018/19 & 2019/20 (Appendix 1A).
- 1.7 Notes that garage rents will be revised once the works have been completed and will be reflected in the Fees & Charges schedule at the appropriate time.
- 1.8 Endorse the principal of new garage lets commencing at a rental assessed as market rate by SPS, by comparison to charges made by neighbouring boroughs for both residents and non-residents – see Appendix 2.

2. Reason for Decision and Options Considered

- 2.1 There are 2,876 garage units within the Council's Garage Estate which at the 31st of March 2017 had an existing use valuation of £22.614m in the HRA stock. Based on data gathered in September 2017, the status of the garages is shown in Table 1 below:

Table 1

Garage Count as at September 2017	Non-Regeneration Estate	Regeneration Estate	Potential Residential Development	Total	Total%
Rented	501	136		637	22%
Vacant	650	989	600	2,239	78%
Total	1,151	1,125	600	2,876	100%

- 2.2 The current forecast income for 2017/18 of £0.288m – the income outturn for 2016/17 was £0.324m. The current forecast income is being generated by 637

garages (22%) of the current garage stock. The goal is that by 2021/22 the net income of £0.681m (an increase of £0.360m or 111%) will be generated by around 1,087 garages or 38% of the current garage stock.

- 2.3 There is no approved budget for either managing or repairing the garages – the current repairs and maintenance service is on an ad-hoc basis – expenditure for 2017/18 to Month 10 was £0.019m. Using delegated powers, a low level of expenditure has taken place, funded from associated budgets in the HRA. Expenditure on garage repairs and security from 2013/14 to 2017/18 Month 10 has totalled £0.289m as shown in Table 2 below:

Table 2

Year	2013/14	2014/15	2015/16	2016/17	2017/18	Total
Total	0.080	0.096	0.049	0.045	0.019	0.289

- 2.4 A number of options were considered for optimising the estate including:

- Seeking a third-party provider to manage the estate;
- Deploying additional in-house resource to boost new lettings and provide a more proactive management service;
- Disposing of the estate.

- 2.5 It was considered that the market knowledge and expertise of a specialist provider would be critical in driving the required marketing exercise and in guiding the investment strategy to ensure maximum returns.

- 2.6 A number of garage sites are currently allocated for potential re-development and this is being taken forward by the Housing Supply team. New tenancies offered by the Council through the provider will be such that they allow the council to secure vacant possession quickly in the event the site is identified for re-development.

- 2.7 The appointment of a third-party provider will allow the Council to rapidly improve the proactive letting and management of the estate enabling the Council to:

- Provide additional parking opportunities for residents;
- Reduce incidents of anti-social behaviour associated with vacant units;
- Generate an additional revenue income.

- 2.8 The proposed rent increase has been considered in detail, cognisant of the need to ensure existing tenants see an improved service and not just an increased rental demand. As such, no increases in rentals are proposed in the 2018/19 financial year with increases being capped at an average of £1 per week in subsequent financial years. Appendix 2 provides detail on rents available within neighbouring boroughs and sets out the proposed escalator over the five-year period.

- 2.9 Through the commissioning of SPS, it is considered that the revenue income for the Council can be enhanced, that the service provided to garage tenants can be improved and that the number of vacant garage units across the borough can be significantly reduced.

3. Key Implications

- 3.1 The Council will be commissioning a third party (SPS) to co-ordinate investment in and the management of its garage estate. SPS have been appointed to a legally tendered framework tendered under the Public Contracts Regulations 2006. They are the only company appointed to the framework and therefore a direct award can be made under the framework terms.
- 3.2 The Council will be committing to a capital investment £0.180m per annum for two years totalling £0.360m in its garage estate. The current model shown in Appendix 1A indicates that this is intended to clear and build 175 new garages and refurbish 100 over the first two years – 2018/19 & 2019/20.
- 3.3 The Council will be agreeing to an increase in garage rents across the borough, moving existing rents gradually closer to a market rent. The figures presented in this report support the view that the current rents are considerably below what might be assessed as a market rent.
- 3.4 All new garage tenancies for new tenants will be offered at a market rent as assessed by SPS.
- 3.5 A new responsive repairs service for garages will be made available ensuring the Council proactively manages the condition of the estate and provides an enhanced service to garage tenants, justifying the increase in charges.

4. Financial

a) Financial impact on the budget

- 4.A.1 Currently there is no approved revenue budget allocation for either the management or maintenance of the HRA Garage stock, which is generating a forecast income for 2017/18 of £0.288m from 637 garages or 22% of the total stock of 2,876. Current repairs and maintenance to garage is on an ad-hoc basis, under delegated powers, using both capital and revenue resources – see Table 3 below.

Table 3

Year	2013/14	2014/15	2015/16	2016/17	2017/18	Total
Repairs	£m	£m	£m	£m	£m	£m
Capital	0.005	0.033	0.015	0.021	0	0.074
Revenue	0.075	0.063	0.034	0.024	0.019	0.215
Total	0.080	0.096	0.049	0.045	0.019	0.289

Expenditure on garage repairs and security from 2013/14 to 2017/18 (Month 10) has totalled £0.289m (of which £0.074m was funded from capital), for an asset with an existing use value of £22.614m as at 31/03/2017.

4.A.2 Under the proposed contract, the Council will be committed to a capital investment of £0.180m per annum for two years in the garage estate (See Table 4). The capital funding is being contained within the budget for High Intervention Estates in the current HRA business plan for the initial two-year period of the proposed contract – it is part of the update of the HRA capital programme for 2018/19 approved in January 2018. Approval is being sought for only the first two years - the subsequent years of the investment programme will be subject to a separate approval. The overall funding level will be reviewed after 2018/19 and if necessary additional funding will be requested covering 2019/20 and 2020/21.

Table 4

	Year 1 (2018-19)	Year 2 (2019-20)	Year 3 (2020-21)
	Capital £m	Capital £m	Capital £m
Addition Funded from RCCO – Reallocation from High Intervention Estates	0.180	0.180	0

4.A.3 The projected four-year income and expenditure profile associated with the garage estate is summarised in Appendix 1B. Net income is projected to rise to £0.681m per annum in four years, from the current estimate of £0.288m for 2017/18. The income earned is ringfenced to the HRA.

4.A.4 An alternative way of evaluating the level of income that may be generated by the proposed management outsourcing is to look at the revenue savings that could be achieved through disposal of the asset. It is estimated that a £1m in asset disposal realises a £0.100m per annum revenue saving.

4.5.5 Using the existing use valuation of £22.614m for 2,876 garages at the 31st March 2017, the 1,151 garages currently rented or vacant would have a valuation of c£9m. The sale of these garages at this valuation would generate approximately £0.900m of revenue savings per annum. This is £0.219m more than the maximum income forecast from the external management contract by 2021/22 of £0.681m (Year 4 of the proposed contract). However, disposal may not be a realistic option as many of the garages due to their location (underground) and accessibility (integrated into local estates).

4.A.6 A number of assumptions have been made relating to the timing of regeneration activity which will remove garages from the portfolio. Changes to the regeneration programme could affect the income numbers presented in this report. The impact of such changes will be highlighted in the performance review process with the service provider.

b) Financial background

- 4.B.1 The SPS Management fee will be paid based on the number of garages under management (£0.123m in year one reducing to £0.103m in year two). 75% of the fee will be taken directly from the gross income, while the balance of 25% of fee is to be paid only upon successful delivery of 100% of the new income assumed in years 1 and 2. However, this means that SPS is guaranteed to receive 75% of its fee in the event of failing to deliver the new income targets. The sum of £0.681m is net of the total management fee (See Appendix 1B).
- 4.B.2 The Council will invest, through SPS, £0.077m in Year 1 in a handy person repairs service to support the management of the garage estate. This is projected to reduce to £0.065m in Year 2. This will be funded from the gross income generated. (See Appendix 1B). There is no funding identified and available within the HRA's existing budgets. If insufficient income is generated to cover the cost of this service, this would depress the existing revenue generated from the garages. It should be noted that the handy person service is for both existing tenants as well as new lets, in order to maintain the garage estate.
- 4.B.4 The contractor's performance will be monitored quarterly, looking specifically at their performance on new income delivered relative to the projected figures.
- 4.B.3 The income projections set out in Appendix 1B make several assumptions about the ability of SPS to let newly refurbished or re-built garages at or close to the market rate for garages within the various wards of the Ealing Borough. There is a risk that not all the additional income assumed will materialise, however assumed rates have been set below that which the benchmarking work suggests would be supported, thereby mitigating this risk.

5. Legal

- 5.1 SPS have been appointed to a legally tendered framework tendered under the Public Contracts Regulations 2006. They are the only company appointed to the framework and therefore a direct award can be made under the framework terms. By accessing this framework, the contract will be let in accordance with the Council's Contract Procedure Rules and the Public Contracts Regulations 2015 which have since replaced the 2006 regulations.
- 5.2 The existing tenancies to garage users can be ended by the Council serving notices on those users. Garage users would then be offered new tenancies under revised tenancy agreements with such tenancies to be managed by SPS.
- 5.3 By virtue of s.75 and Schedule 4 to the Local Government and Housing Act 1974 the income from rents and charges in respect of property within the Housing Revenue Account (HRA) is to be credited to the account. Houses and other buildings which have been provided under Part II of the Housing Act 1985 are to be accounted for in the HRA.

6. Value for Money

- 6.1 NSAH (Alliance Homes) Limited commissioned a framework in 2015 and Secure Parking and Storage Limited (SPS) were duly appointed. Unfortunately, due to a lack of participants in the tender exercise, only one bid submission was received by the framework, that of SPS.
- 6.2 The existence of this framework affords the council a compliant route to market that satisfies the requirements of both the Public Contract Regulations 2015 and the Councils Contract Procedure Rules. The framework was tendered under the Public Contracts Regulations 2006 which apply to the contract.
- 6.3 There is, however, little by way of guarantee that the framework rates tendered by SPS represent best value for the Council. While they were obtained competitively, without other competitive tender figures being available, benchmarking is difficult.
- 6.4 Despite the potential for the Council not achieving best value on the management fee, the management fee represents an expenditure of approximately £0.200m per annum. The cost of a one-year delay in implementation (over the 4-year period) could be as much as £0.440m. As such it is considered that the Councils interest is best served in proceeding with the SPS solution without the delay associated with an OJEU compliant tender process.
- 6.5 The proposed contract duration affords the Council the opportunity to subsequently retest the market on the management fee should an alternative provider become known.

7. Sustainability Impact Appraisal

- 7.1 It is not considered that there are any sustainability issues arising from the proposals contained within this report.

8. Risk Management

- 8.1 The table below sets out the principle risks and the mitigation approach.

Risk	Implication	Mitigation
It does not prove possible to secure the number of new lettings proposed	Revenue benefits of the project not realised	25% of provider management fee is payable only if new income targets are achieved.
The market rates assumed for garage lettings are unachievable	Revenue benefits of the project not realised	Market rent figures are supported by figures obtained through a benchmarking exercise. Assumed figures within the financial model are set lower than the benchmark data suggests possible.

Tenants resistant to rental increases	Significant numbers of existing tenants giving up their tenancies Revenue benefits of the project not realised	Delaying any rental increase for existing tenants until 2019-20 allows the handy person service to become established, ensuring tenants are able to see a marked improvement in the service prior to being asked for greater contributions.
The proposed development schemes proceed more or less quickly than currently envisaged.	Garages earmarked for development are required vacant more or less quickly.	Leases offered on garages are to be flexible meaning those earmarked for development can be let on a short-term basis (accruing income in the interim) and those not earmarked can still be provided with vacant possession quickly should it be subsequently decided they are required.

9. Community Safety

9.1 Through the proactive management of garage tenancies and the reduction in void property across the borough it is considered that the action proposed in this report will contribute to a reduction in anti-social behaviour across the borough.

10. Links to the 6 Priorities for the Borough

10.1 The project will help achieve the 6 priorities in the following ways

- Prosperous - Support increasing the supply of homes, especially affordable homes, with identified garage sites redeveloped by the Housing Supply team
- Fairer - Generate additional income from a Council asset to support front line services
- Accessible - Improve the availability of parking opportunities for residents
- Safer – Reducing incidents of Anti-Social Behaviour through the proactive management of the estate and reducing the number of empty units across the borough.
- Cleaner – Proactive management of the estate will reduce incidents of fly-tipping and ensure incidents when they do occur are dealt with swiftly.

11. Equalities, Human Rights and Community Cohesion

11.1 It is not considered that there are any Equalities, Human Rights or Community Cohesion issues arising from the proposals contained within this report.

11.2 The Equality Analysis Assessment (EAA) is currently being undertaken.

12. Staffing/Workforce and Accommodation implications:

- 12.1 Given the suppliers stated intention to employ staff to work specifically on this contract, based within the London Borough of Ealing, there is the potential for TUPE to apply at the end of the contract. Work is ongoing to establish the impact of this.

13. Property and Assets

- 13.1 The garage estate will remain owned by the Council. The Capital Investment should increase the value of the assets while ensuring the return generated is significantly enhanced.
- 13.2 Proposed disposals have been considered and the model proposed ensures the maximum flexibility to allow elements of the estate to be disposed of / re-developed as opportunities present.

14. Any other implications:

None

15. Consultation

- 15.1 Work is currently being undertaken to understand our formal obligations in respect of consultation. Officers will undertake to consult as required at the point at which implications for individual tenants become known.

16. Timetable for Implementation

- 16.1 SPS have confirmed that they need 8 weeks' mobilisation from contract signing to start on site.

17. Appendices

- 17.1 Appendix 1A & 1B – 4 Year Garage Numbers and Garage Income & Expenditure Profile
- 17.2 Appendix 2 – Rent Information
- 17.3 Appendix 3 – FE1-HRA8 Garage Commercialisation Paper

18. Background Information

- 18.1 Garage Estate Options Appraisal Document
- 18.2 Borough benchmarking of garages market rent

Consultation

Name of consultee	Post held	Date sent to consultee	Date response received	Comments appear in paragraph:
Internal				
Cllr Jasbir Anand	Lead Member for Housing			Contained in the body of the report
Mark Wiltshire	Director, Safer Communities and Housing	14/09/2017		Contained in the body of the report
Donna Creffield	Legal Services	14/09/2017	14/09/2017	Contained in the body of the report
Keith Robinson	Legal Services	14/09/2017	15/09/2017	Contained in the body of the report
Ray Fallon	Head of Service – Housing	14/09/2017		Contained in the body of the report
Phil Boxhall	Head of Asset Management	14/09/2017	19/09/2017	Contained in the body of the report
John Prince	Interim Finance Business Partner, Regeneration & Housing	14/09/2017	22/02/2018	Contained in the body of the report

Report History

Decision type:	Urgency item?
Key decision	No
Report no.:	Report author and contact for queries:
	Ceri Dovey - 07961 867357

Appendix 1A – Garage Numbers

	Management Contract				
	2017/18	2018/19	2019/20	2020/21	2021/22
COMBINED (New Build & Refurbished Garages)	Current	Year 1	Year 2	Year 3	Year 4
Non Regeneration Vacant	650				
Regeneration Vacant	989				
Possible Residential Development Vacant	600				
	2,239				
Non Regeneration Rented	501				
Regeneration Rented	136				
	637				
No of Garages	2,876	1,151	651	912	1,012
No of Voids	650	500	375	275	200
Existing Let Garages	637	637	787	912	1,012
New Garages Let (New Build)		100	75	50	25
New Garages Let (Refurbishment)		50	50	50	50
Forecast of Total number of Garages let	637	787	912	1,012	1,087

Note: The Management Fee and Repairs Service costs are calculated based on the total number of garages under management. These figures are generally reducing based on the estimated dates at which garages will need to be vacated to facilitate the various regeneration schemes.

Appendix 1B – Garage Income & Expenditure

	Management Contract				
	2017/18	2018/19	2019/20	2020/21	2021/22
COMBINED (New Build & Refurbished Garages)	Current	Year 1	Year 2	Year 3	Year 4
Current weekly rent	9				
Proposed weekly rent - Existing Lets		9	12	12	13
Proposed weekly rent - New Lets		20	20	20	20
Existing Rental Income	288,000	288,000	288,000	288,000	288,000
Rental Income from new lets		78,000	221,000	338,000	429,000
Rental Increase from higher rents on existing lets		-	99,372	99,372	132,496
Ave Weekly Rent (total portfolio)	9	9	13	14	15
Total rental income	288,000	366,000	608,372	725,372	849,496
Less:					
Ealing Repair Costs (No Repairs in 2017/18)		-	-	-	-
SPS Management Fee (Minimum 75% yr 1 and 2)		92,250	77,250	77,250	77,250
SPS Handy Person		77,000	65,000	65,000	65,000
Net Income	288,000	196,750	466,122	583,122	707,246
SPS Management Fee (25% target based)		30,750	25,750	25,750	25,750
Net Income after performance fee	288,000	166,000	440,372	557,372	681,496
Expected Capex	-	180,000	180,000	180,000	180,000

Appendix 2 – Rent Information

Rent Escalator	Year 1	Year 2	Year 3	Year 4	Year 5	Average
Rental Increase Cap (£/Week)	£0	£3	£0	£1	£1	£1

Local Provider Charges – Public Sector / Housing Associations

	Single Garage (£/Week)	
Local Authorities	Resident Charges	Non-Resident Charges
Ealing	£7-11 (no VAT)	£7-11 + VAT
Hillingdon	£12-18.50 + VAT	
Harrow	£14.05 (no VAT)	£14.05 + VAT
Hounslow	From £14.90	From £19.08
Hammersmith & Fulham	£17.31-£23.08 + VAT	
Housing Associations	Resident Charges	Non-Resident Charges
Southern Housing (South/East Outer London)	£7-12 + VAT	£7-12 + VAT
Brent Housing Partnership	£10.50 + VAT	£10.50 + VAT
Affinity Sutton (Bromley)	£16.44	

SPS Assessment – Market Rent Potential

Background paper available.